IN THE UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF TEXAS
MARSHALL DIVISION

DATATREASURY CORPORATION	§	
PLAINTIFF	§	
vs.	§	No. 2:06cv72
	§	2:06cv165
WELLS FARGO & COMPANY, *et al*	§	JURY TRIAL DEMANDED
DEFENDANTS	§	

PLAINTIFF DATATREASURY CORPORATION'S RESPONSE TO DEFENDANTS CITY NATIONAL CORPORATION AND CITY NATIONAL BANK'S MOTION TO DISMISS FOR LACK OF PROPER VENUE

Plaintiff DataTreasury Corporation files this its Response to City National Corporation and City National Bank's Motion to Dismiss for Lack of Proper Venue, and would respectfully show this Honorable Court as follows:

I. INTRODUCTION

DataTreasury Corporation ("DataTreasury") is the owner of all rights and interest in and under United States Patent Nos. 5,910,988; 6,032,137; 5,265,007; and 5,717,868. These patents were issued for a variety of inventions comprising systems and methods for various banking functions, include image capture, image transmission, image storage, a central check clearing system, and submission of checks into the payment system. This Court is intimately familiar with the DataTreasury litigation; the Court has presided over multiple *Markman* hearings on the DataTreasury patents, and most importantly, has entered Consent Judgments where institutions such as banking colossus J.P. Morgan Chase ("JPMC") have admitted that at least two of the DataTreasury patents are valid and enforceable.

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In its long-running quest to have other financial institutions recognize the intellectual property that DataTreasury owns in the same way that JPMC has, DataTreasury filed the instant action and a similar action against a number of large financial institutions and related infringing institutions. In response to these two Complaints, only two of these fifty-plus new Defendants allege that this Court is not the proper venue for this matter to be heard. This Response focuses on these two defendants, City National Corporation ("CNC") and City National Bank ("CNB").

II. ARGUMENT

A. DataTreasury has Established Specific Personal Jurisdiction Over Defendants, Thus Venue Here is Appropriate

Defendants contend that this Court is not the proper venue for this dispute, and thus DataTreasury's Complaint against them should be dismissed. *See Defendants' Motion to Dismiss, previously filed*. Ultimately, this is basically a contention that this Court has no specific personal jurisdiction over Defendants, as analyzing proper venue in a patent case uses the same analysis as for analyzing specific personal jurisdiction. *See VE Holding Corp. v. Johnson*, 917 F.2d 1574 (Fed. Cir. 1990); *see also* 28 U.S.C. §1400(b). In support of these contentions, Defendants rely entirely on the self-serving declarations of several company executives. *See Defendant's Declarations, previously filed as Exhibits to their Motion to Dismiss*. These Affidavits fail to establish that this Court lacks specific personal jurisdiction over these Defendants, and fail to controvert the facts set forth in Plaintiff's First Amended Complaint. Thus, Defendants' Motion should be denied, as this Court's exercise of specific personal jurisdiction over these Defendants is entirely proper and thus venue in this District is appropriate.

1. Plaintiff's Pleadings and Defendants' Activities Confer Specific Personal Jurisdiction to this Court, Thus Venue is Proper

This Court has specific personal jurisdiction over Defendants in this case if Plaintiff's alleged facts in its First Amended Complaint regarding jurisdiction and venue are true. *See Burger King v. Rudzewicz*, 471 U.S. 462, 472-73 (1985). Specific personal jurisdiction in Fifth Circuit patent cases has been held to exist when the defendant purposely directs his activities at the forum, and the ensuing litigation arises out of or relates to those activities. *See Gardemal v. Westin Hotel Co*., 186 F.3d 588, 595 (5th Cir. 1999). Since the Texas long-arm statute extends to the limits of due process, a non-resident defendant is subject to personal jurisdiction in Texas if due process is satisfied. *See Viam Corp. v. Iowa Export-Import Trading Co.*, 84 F.3d 424, 427 (Fed. Cir. 1996). Plaintiff's pleadings and the Defendants' activities are both sufficient to confer personal jurisdiction to this Court, as Defendants have purposefully availed themselves of the benefits of Texas by establishing minimum contacts in Texas and within this District; as such, exercising jurisdiction over this Defendant does not offend traditional notions of fair play and substantial justice. *See Int'l Shoe v. Wash.*, 326 U.S. 310, 316 (1945); *Burger King Corp v. Rudzewicz*, 471 U.S. 462, 474 (1985). Therefore, venue in this District is appropriate.

Plaintiff has pled in its First Amended Complaint that Defendants have engaged in or currently engage in the following activities within the Eastern District of Texas: (1) making, using, selling, offering to sell, and/or importing, directly, contributorily, and/or by inducement, infringing products and services within the State of Texas and within this District; (2) providing services and selling products in this District separately and with or for other infringing companies which are or were Defendants in related pending litigation in this District; (3) engaging in infringing activities with respect to the products and services of

Small Value Payments Co., LLC and The Clearing House Payments Company, LLC, defendants that operate a nationwide check image archive and exchange service that operates in and through this District; and (4) authorizing, participating in, or facilitating transactions through this archive/exchange that in whole or in part infringe the patents within this District. These facts, if true, are more than sufficient to establish specific jurisdiction over the Defendants, and the Defendants' declarations do not controvert all of the allegations above.

2. The Court Should Disregard Defendants' Self-Serving Declarations

Defendants' representations to the Court, and the public at large, should cause this Court grave concern. Attached as Exhibit 1 are selected pages from CNC's most recent public 10-K filing with the Securities and Exchange Commission. Under the Sarbanes-Oxley Act, this document's accuracy is sworn and attested by the Chief Executive Officer of CNC, Russell D. Goldsmith. *See id*. Subsequently, many of Defendants' managers and officers have sworn and attested to certain facts in Declarations the Defendants filed in support of their Motion to Dismiss. In this Court, Defendants' employees states as follows:

- "The Corporation (CNC) is merely a holding company. The Corporation is not FDIC insured and is not authorized to perform any banking-related services." *See* Declaration of Arthur Spence, previously filed.
- "The Corporation (CNC) does not process checks or other financial transaction records, and does not make, use or sell products related to the processing of checks or other financial records." *See id.*
- "The Corporation itself neither offers nor provides banking or financial services of any kind." *See* Declaration of Albert Hom, previously filed.

Why should the Court be concerned about these sworn statements of Defendants? For this reason: in direct contradiction to the statements above, CNC's SEC filing, sworn as accurate under the Sarbanes-Oxley Act, states as follows: "City National Corporation ("the Corporation")…is a bank holding company for City National Bank (the "Bank" and together with the "Corporation", the "Company")….The Company is engaged in one operating segment: providing private and business banking and related financial services, including investment and trust services." *See* Exhibit 1, page 2. How can Defendants swear in this Court that CNC is not authorized to perform any financial services, does not process checks or other financial transaction records, and does not provide banking or financial services of any kind, when Defendants' own SEC filing tells the public "The Company is engaged in providing private and business banking and related financial services?"

Unfortunately for Defendants, the inconsistencies do not stop there. Defendants' SEC filing goes on to state that "The Company [i.e., CNC and CNB together] offers a broad range of lending, deposit, cash management, international banking, equipment financing, asset-based lending, and other products and services." *See id.*, page 2. How can CNC offer this "broad range" of banking services to the public at large, yet in this Court claim that it is not authorized to perform, and does not offer or provide, any banking or financial services of any kind? These statements are simply irreconcilable; either Defendants' Chief Executive is in violation of the Sarbanes-Oxley Act and has misled the public at large, or Defendants' officers have misled this Court as to some of the most important issues for a personal jurisdiction analysis. Now that Defendants are seeking to have this Court declared powerless to assert jurisdiction over them, they are apparently not reluctant to submit affidavit proof that directly conflicts with Sarbanes-Oxley punishable statements made by their chief executive. Either way, Plaintiff suggests that the Court should look very suspiciously at, and ultimately disregard, the arguments Defendants make through their Declarations in an attempt to avoid litigating in this District.

3. City National Bank's Self-Serving Affidavits Prove that CNB is Subject to Specific Personal Jurisdiction in this District, Thus Venue is Proper

CNB is subject to specific personal jurisdiction in this Court, based on not only what its employees and officers have stated in their Declarations, but also what they have failed to state. To begin with, it is important to note that Defendants have stipulated that CNB customers reside in this District. CNB has loans outstanding to customers in this District, it has loans secured by property in this District,[1] and most importantly, it has over 130 account holders in this District. *See* Declarations of Garza, Maniktala, and Wade, previously filed by Defendants. What services of CNB are available to those 130+ account holders that reside in this District? According to the Declaration of Joe Fertal, "bank customers can access images of their paid checks through the Bank's online banking service….When a Bank customer requests a check image, it is retrieved directly from the central processing facility in Los Angeles." *See* Declaration of Joe Fertal, previously filed by Defendants.

What is the significance of CNB's own sworn statements? In essence, CNB has stipulated that (1) it has over 100 customers in this District; (2) it offers those customers access to check images through the internet in this District; and (3) it transmits check images over the internet from California to these remote locations (i.e., this District). As this Court is aware from its prior cases involving the DataTreasury patents, systems that capture images, manage them, protect them, and transmit them to remote locations are at the core of many of DataTreasury's asserted patent claims. From these stipulated statements alone it is clear that

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[1] CNB seems to contend that because these loans originated in California, and then the businesses moved to this District, that CNB somehow is not purposefully availing itself of this District. What it leaves unsaid is the glaring truth – CNB has not sold those loans, or called them, or taken any other action to dissolve its relationship with the borrowers now that the borrowers are residents of this District. Thus, CNB is *currently* purposefully availing itself of conducting business here, whether or not it *originally* intended to do so with these particular borrowers.

CNB is engaging in activities that give rise to specific personal jurisdiction in this District, based on the claims of DataTreasury's patents.

What is left unsaid – and thus can be assumed to be true? To begin with, CNB encrypts these transfers of personal financial information to this District, so that their customers' financial information is not obtained by unauthorized users. Both Mr. Fertal and Mr. Taylor[2] had opportunities to refute those claim elements of the DataTreasury patents; neither did.[3] Also left unsaid is any statement by Mr. Taylor refuting DataTreasury's allegations that images of checks captured by CNB are exchanged in or through the Eastern District of Texas, with CNB's knowledge and intent that they be so exchanged. If anyone at CNB could refute that allegation, Mr. Taylor would have; his silence on this topic speaks volumes.

Another clear implication arising from the Texas-based account holders' accessing of check images via CNB's online banking web site[4], which states "our online services let you manage your money whenever and wherever you want," is that CNB's interactive web site demonstrates the Defendants' purposeful availment of the benefits of completing financial transactions with Texas residents and further maintaining a business relationship with them. *See American Eyewear, Inc. v Peeper's Sunglasses and Accessories, Inc.*, 106 F.Supp.2d 895, 899-903 (N.D. Tex. 2000) (finding specific jurisdiction was proper over defendant whose sole nexus to Texas was its "virtual store" for eyewear on its website, where defendant had no officers, agents, or representatives in Texas, neither owned nor leased any real or personal property there, did not maintain any bank accounts or phone listings in Texas, did not market products or advertise directly in Texas, was neither licensed to do business in nor paid taxes in Texas, its retail stores made no sales to Texas-based customers, and its sales to Texas residents constituted fewer than one-half of one percent of its total sales). CNB's web site is not ancillary to its financial services offerings, but rather lies at the core of CNB's ability to reach out and perpetuate banking relationships with residents in Texas and elsewhere. CNB's interactive web site permits its Texas-based account holders to not only view imaged checks, but complete entire financial transactions from the Eastern District of Texas:

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[2] Mr. Fertal is the Senior Vice President for Banking Services and Item Processing Services at CNB. Mr. Taylor is the Vice President for Information Services at CNB and is "responsible for all bank telecommunication services and equipment. *See* Respective Declarations.

[3] For this and any other critical pieces of information missing from the Defendants' original Declarations, the Court should disregard any attempt by Defendants to insert this type of evidence into 'rebuttal' declarations in their Reply brief, which will undoubtedly be filed after DataTreasury points out all the missing links in their arguments.

[4] http://www.cnb.com/personal/onlineservices/

- Real-time History - View checking and savings account history.
- Check Image - View the front and back of cleared checks.
- Account-to-Account Transfers - Setup scheduled, one-time or repeating transfers between checking, savings, money market and eligible loans and lines of credit accounts.
- Stop Payments - Request a stop payment of a check.
- Secure Messaging - Send and receive secure communications from the bank
- Alerts - Set up alerts to notify you of account balance changes or when a check clears.
- Download History - Download account history into Quicken®, Microsoft® Money, or .QIF or .CSV file formats.
- Pay Bills - Schedule future dated or recurring bill payments from multiple personal checking accounts.
- Credit Card Payments - Access your account information and make payments.[5]

That CNB did not take steps to avoid Texas jurisdiction (i.e., terminating accounts of accountholders who are in or move to Texas, selling loans of Texas residents, designing its web site to block financial transactions or viewing of imaged checks by Texas residents, or block the ability of Texas residents to use the Secure Messaging feature of its web site to

[5] http://www.cnb.com/personal/onlineservices/onlinebanking.asp

communicate with CNB) speaks volumes regarding its intent to continue doing business with Texas residents. *Id*. at 903.

In essence, CNB – an entity with knowledge of DataTreasury's patents – is engaging in transactions (i.e., imaging and exchanging imaged checks with other Defendant banks) in and through this District with the intent that those transactions occur with residents in Texas; this gives rise to infringement liability for CNB, and specific personal jurisdiction (and proper venue) for this Court. CNB attempts to avoid this truth with a creative argument that it only utilizes The Clearing House for local check image exchange and settlement services, i.e., unrelated to this District. However, to the extent that CNB has ever exchanged, cleared or settled an image-based transaction that was communicated via another Defendant in or through this District electronically at any point, that simple act may give rise to liability under DataTreasury's patents.[6] CNB's Declarations do not, and cannot, affirm that this has never occurred.

Finally, CNB attempts to avoid this Court's jurisdiction by citing to several cases that purport to stand for the proposition that the bank on which a check is drawn, even if it is a bank subject to jurisdiction in this District, is an inappropriate consideration in determining personal jurisdiction for CNB, as it equates with "unilateral activity" of a third party that is not attributable to CNB. *See* Defendants' Motion, page 9. However, the cases cobbled together for this point by CNB – one a non-patent case for the banking proposition, one a patent case for the 'unilateral activity' proposition – do not support Defendants' argument in this case. Here, Plaintiff has accused CNB of intentionally and purposefully availing itself of

[6] As the Court can take judicial notice of, portions of the claims of DataTreasury's patents cover the communication networks whereby image exchange occurs. To the extent CNB has utilized communication networks in sending images through this District – again, a point it does not refute – specific jurisdiction arises in this Court.

this District by exchanging images and clearing checks in or through this District via telecommunications networks in this District; Defendants have not refuted this point.[7] This inquiry is essential to the claim terms of DataTreasury's patents. Thus, it should be presumed that Defendants cannot refute this point, and CNB is subject to personal jurisdiction here. Therefore, venue is proper, and Defendants' Motion should be denied.

B. DATATREASURY HAS ESTABLISHED THAT THIS COURT HAS SPECIFIC PERSONAL JURISDICTION AND THUS PROPER VENUE OVER CITY NATIONAL CORPORATION

1. The True Nature of the Relationship Between City National Corporation and City National Bank Supports the Finding of Personal Jurisdiction, and thus Proper Venue, in this Court

As established above, Defendant CNB is subject to personal jurisdiction in this Court, and thus venue here is proper. Based on the evidence, it logically follows that CNC is subject to jurisdiction here as well. The following two facts are undisputed, based on the 2005 10-K of CNC attached as Exhibit 1: (1) CNC is a bank holding company, and (2) CNB is a wholly-owned banking subsidiary of CNC. Bank holding companies like CNC are heavily regulated by Federal law, and the very definition of a bank holding company is "any company which has control over any bank." *See* 12 U.S.C. § 1841(a)(1). Thus, by admitting that (1) it is a bank holding company and (2) its primary banking subsidiary is CNB, CNC has admitted that it does in fact control CNB. Its attempts to persuade the Court otherwise are simply incorrect.

Another fact further disproves CNC's claim that it does not control CNB's daily activities: there are multiple executives of CNC that are also executives of CNB, in some instances in the exact same positions. For example:

- Russell Goldsmith serves as the President and CEO of CNC and is the Chairman of the Board and CEO of CNB;

[7] Furthermore, DataTreasury has alleged that CNB intends to engage in these transactions with third parties subject to jurisdiction here; CNB is not being haled into this District based on unilateral activity of others.

- Christopher Carey serves as Executive Vice President and CFO of CNC and CNB;
- Christopher Warmuth serves as Executive Vice President of CNC and President of CNB;
- Jan Cloyde serves as Executive Vice President of both CNC and CNB
- Michael Cahill serves as Executive Vice President, Secretary, and General Counsel of both CNC and CNB; and
- Nancy Gilson serves as the Controller for both CNC and CNB

See CNC 2005 10-K, Exhibit 1, p. 10. Thus, CNC's claim to this Court that it is not involved in the banking activities of CNB stretches credulity. Since venue in this Court is appropriate for CNB as discussed above, and since CNC controls CNB under Federal law and through their joint director/officer structure, it follows that venue is proper to CNC as well.

4. The Court Should Exercise Personal Jurisdiction Under the "Source of Strength" Doctrine, thus Venue is Proper

The "source of strength" doctrine has recognized that bank holding companies owe a duty to accept obligations of their subsidiary banks. CNC recognizes this in its recent 10-K, stating that it "is required to serve as a source of financial and managerial strength to its subsidiary banks…". *See id.*, page 5. This doctrine forms another basis for denying CNC's Motion to Dismiss; namely, because CNC should be held liable for the infringing activities of CNB in addition to its own activities. *See Branch o/b/o Maine National Bank v. U.S.*, 69 F.3d 1571 (Fed. Cir. 1995) ("Through the source of strength doctrine, the [Federal Reserve] Board pierce[d] the corporate veil between a bank holding company and its affiliated banks…"). It is obvious that CNC manages, controls, and directs the operations of CNB. Therefore, the source of strength doctrine is an additional basis for the Court to deny CNC's Motion.

C. If Questions Remain, DataTreasury Should Be Allowed to Conduct Discovery on the Jurisdictional Issues Raised

As described above, there are numerous conflicts between the Affidavits that CNC and CNB have filed and the representations they continue to make today on their website and in its public filings with the SEC. The mere fact that CNC and CNB make these conflicting representations is grave cause for concern about the veracity of the Affidavits that the Defendants have filed. On that basis alone, Plaintiff prays that the Court disregard the Affidavits filed by Defendants and deny Defendants' Motion to Dismiss. However, in the event that the Court is still unsure of the precise contacts of CNC and CNB with the Eastern District of Texas, Plaintiff prays that the Court grant Plaintiff the opportunity to conduct discovery on the venue and jurisdictional issues raised by Defendants before proceeding further with this litigation. Plaintiff incorporates by reference a Motion titled "Plaintiff's Motion to Authorize Jurisdictional Discovery Against City National Corporation and City National Bank," which is being filed simultaneously with this Response, and prays that the Court grant that Motion and the relief requested therein should questions remain about the jurisdictional decisions based on this Response.

III. CONCLUSION AND PRAYER

Based on the foregoing, Plaintiff DataTreasury Corporation respectfully requests that the Court DENY CNC and CNB's Motion to Dismiss For Lack of Proper Venue. In the alternative, DataTreasury prays that the Court reserve ruling on Defendant's Motion, and allow Plaintiff time to conduct discovery targeted solely at the jurisdictional issues raised by CNC and CNB, as requested in DataTreasury's separate Motion to Authorize Jurisdictional Discovery. After completion of that discovery, Plaintiff would request the Court hear an Amended Response to Defendants' Motion and DENY said Motion. Plaintiff prays for any further relief to which it is entitled.

Respectfully Submitted,

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CERTIFICATE OF SERVICE

The undersigned hereby certifies that a true and correct copy of the foregoing document was served on all counsel of record through the Court's electronic mail this 23rd day of June, 2006.

ANTHONY K. BRUSTER